



# Budget Briefs

SENATE REPUBLICAN FISCAL OFFICE

## *Proposed School Bond Seriously Flawed*

March 6, 2002

**Overview.** The school bond conference committee has released a draft proposal that would place a bond on both the November 2002 ballot and the March 2004 ballot. The total package of \$25 billion would increase the state's debt service by almost \$1.5 billion per year and result in total interest costs exceeding \$19 billion over a thirty-year period. While the need for school facilities may well warrant such an investment, the specific proposal is seriously flawed.

**Proposal.** As proposed, the Legislature would cast a single vote placing a bond before the voters both in November 2002 and March 2004. As Table 1 shows, the proposal provides \$3.65 billion for higher education. The intent is to provide community colleges with a 40-percent share, while the California State University and the University of California would each receive 30 percent. The K-12 funding is allocated to (1) "pipeline" projects – that is, projects that are already "waiting in line" for funding under the now-depleted Prop. 1A (1998) bond – (2) new construction and modernization projects to be allocated on a first-come, first-served basis to districts with projects that will be ready to go within the life of each bond (funds are expected to be available up to two years), (3) a small amount for joint projects involving K-12 districts and other public entities, and (4) a set-aside for "critically overcrowded schools" (COS), as discussed below.

Table 1  
(dollars in billions)

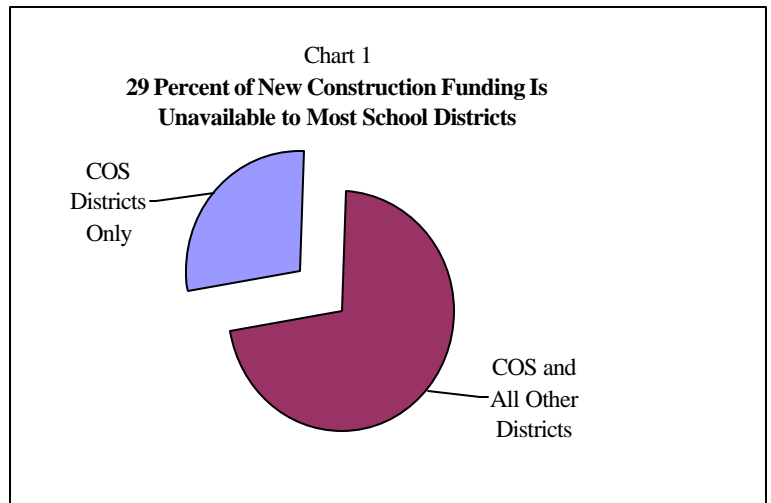
Program	November 2002	March 2004	Total
Higher Education	\$ 1.35	\$ 2.30	\$ 3.65
Prop. 1A "pipeline" projects—New Construction	2.90	-	2.90
Prop. 1A "pipeline" projects—Modernization	1.90	-	1.90
First-come, First-served -- New Construction	3.40	4.90	8.30
First-come, First-served - Modernization	1.40	2.25	3.65
K-12 Joint Use	0.05	0.05	0.10
Set-aside for "Critically Overcrowded Schools "	2.00	2.50	4.50
TOTAL	\$ 13.00	\$ 12.00	\$ 25.00

**29 Percent of Construction Funds Off-Limits to Most Districts.** As Chart 1 shows, the draft proposal would set aside 29 percent of all new construction funding (i.e. pipe-line and first-come, first-served new construction, plus COS) for so-called critically overcrowded schools. In reality, this is a set-aside for districts that want more than the normal amount of time to encumber bond funds. This set-aside will therefore disproportionately benefit LAUSD. In our judgement, LAUSD will receive the bulk of the set-

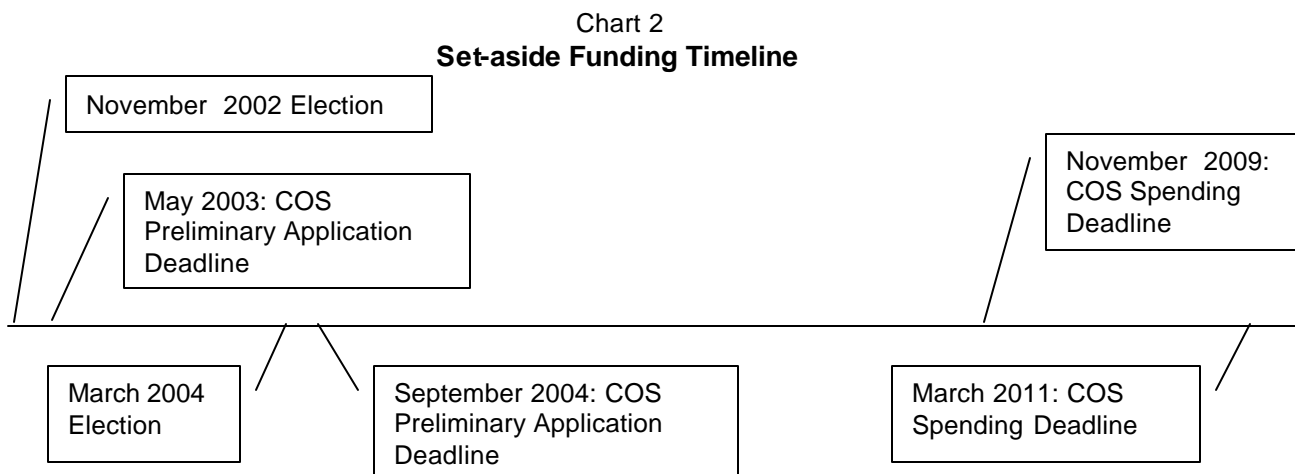
aside, even though it accounts for only 12 percent of the state's students. Moreover, LAUSD could also access the non-COS new construction funds. Thus, LAUSD could take full advantage of the first-come, first-served construction funds, and the COS funds. It is likely that LAUSD would ultimately receive well over 30 percent of the state's new construction funds, at the expense of all other districts.

### Set-aside Funding Criteria Based on Bad Policy.

Not only is the COS set-aside too large, but the eligibility criteria to draw from it are based in part on schools' performance as measured by the statewide Academic Performance Index (API). Ironically, the same Democrats who have decried using the API to trigger rewards for high performing schools and sanctions for low performing schools, now propose to allocate billions of construction dollars based on this ranking. The logic behind this policy is unclear, but appears to assume that overcrowded schools cause poor academic performance among children who attend these schools. If any evidence supports this assumption, logic would lead to the conclusion that all overcrowded schools – whether high performing or low performing – should be eligible for COS set-aside funding if we want to maintain high academic performance. On a larger scale, however, attempting to address serious *academic* issues through school facilities funding policy establishes a precedent that could lead to even greater abuse of the school facilities program and state bond money in the future.



**Set-aside Funding Could Remain for 10 Years.** The timeline below highlights the proposed 5-year COS set-asides in both bonds proposed for the ballot. The boxes above the timeline refer to the November 2002 bond election and the boxes below the timeline refer to the March 2004 election. As proposed, each bond would allow the state up to 5 years to allocate COS funding, plus eighteen additional months for a district to spend the funds. Having billions of dollars of bond funds potentially sitting idle, earmarked for a limited number of districts, while other districts may be in immediate need of state bond funds by 2006 is irresponsible. In fact, districts with guaranteed funding through the COS setaside would have no incentive to lend their support to a statewide bond campaign if one were needed in 2006, 2008, or 2010. Meanwhile, the lack of funds for fast-growing districts could exacerbate the severe overcrowding that the COS setaside is supposed to address.



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